

WASHINGTON STATE DEPARTMENT OF REVENUE



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For more information, contact:

Mike Gowrylow

(360) 486-2113

2004 Tax Exemption Study Released

OLYMPIA, Wash., January 22, 2004—The Department of Revenue has released *Tax Exemptions 2004*, a compendium of state and local tax exemptions.

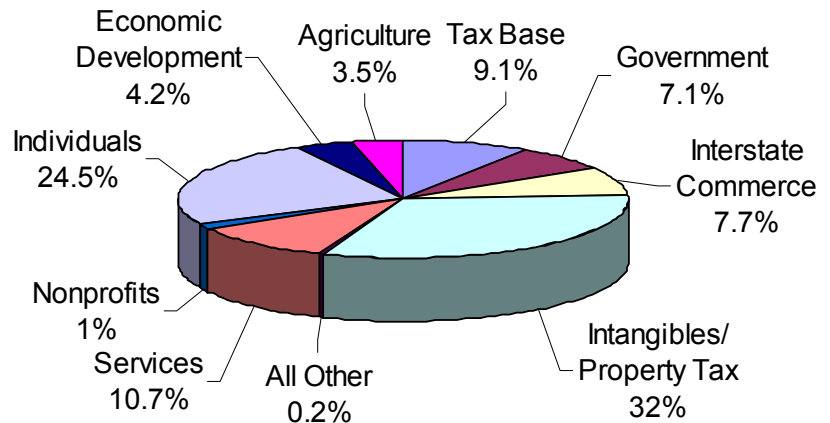
The legislatively mandated tax exemption study is updated every four years. A complete copy is available online at: http://dor.wa.gov/docs/reports/2004/Tax_Exemptions_2004/stats_contents.asp.

The 503 exemptions enacted since territorial days in 1854 total an estimated \$64.7 billion in tax savings during the 2003 – 2005 biennium.

The largest is the property tax exemption for intangibles, enacted in 1931. It accounts for 32 percent, or \$20.7 billion, of the total. This includes wealth represented by intangible assets such as money, stocks, bonds, bank deposits, and corporate trademarks.

Forty-one exemptions benefiting individuals comprise

Tax Exemptions



24.5 percent of the total savings, or \$15.9 billion. The largest of these is the sales tax exemption on food, which will save individuals \$1.8 billion in taxes during the 2003-2005 biennium.

Exemptions comprising nearly a quarter of the total savings would be difficult or impossible to repeal. Interstate commerce is exempt from taxation. This category makes up 7.7 percent of the total or nearly \$5.0 billion. Other government exemptions make up 7.1 percent, or \$4.6 billion. Some items were never intended to be in the tax base, such as taxes on employee income. Tax base exclusions such as these comprise 9.1 percent, or \$5.9 billion, of the total.

Preferential treatment for business activities, including agriculture and economic development exemptions, accounts for 210 of the exemptions but only 7.7 percent of the total dollar amount or nearly \$5.0 billion.

The report emphasizes that the revenue impacts reflect estimated savings to taxpayers but do not necessarily indicate the potential tax revenue that might be generated in the absence of the exemptions. The report includes assessments of whether or not a tax actually could be collected if the exemption were repealed.

Because many of the exemptions are mandated by federal law or the state constitution, and other taxes would not be collected due to changes in taxpayer behavior if the exemptions were repealed, the report concludes that only about \$13.6 billion in additional state or local government revenue could potentially be generated. Most of this – \$11 billion – would be generated by repealing sales tax exemptions. The largest single sales tax exemption – totaling \$6.8 billion – affects professional services.

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